

Customers' Satisfaction towards Remittance Service in Ethiopian Banking Industry: Evidence from Commercial Bank of Ethiopia

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Abstract

For success and survival in today's competitive business environment, delivering quality service is of paramount importance for any economic enterprise. No organization can be successful without satisfying its customers. This research aims to investigate the customer satisfaction towards remittance service of banks with a special emphasis on Commercial Bank of Ethiopia (CBE). The underlying model of SERVQUAL with five dimensions was used to evaluate the impact of service quality on customer satisfaction. Data has been collected through questionnaire from 362 customers of the two districts of CBE namely: Hawassa and Shashemane. In order to achieve the objectives of the study, data were analyzed using descriptive, Pearson Correlation and multiple linear regression methods. The findings revealed that there is a linear and significant positive correlation between service quality and customer satisfaction. Moreover, the selected independent variables significantly explain the variations in the response variable at 5% level of significance. Hence, maintaining high quality services in CBE have excellent customer satisfaction where as low quality services leads to a decline in customer satisfaction which also may result to loss of customers.

Key Words:

Commercial Bank of Ethiopia; Customer satisfaction; Remittance services; Remittance Service Providers; SERVQUAL

INTRODUCTION

Remittances are an important source of income for households mainly in developing countries. The flow of remittances is the least influenced by domestic economic downturn and remains a stable source of income. Studies have shown that remittances contribute to poverty reduction in home countries. Analytical studies define remittances as the sum of selected balance of payments flows. In some studies, the sum of workers' remittances and compensation of employees (Harrison A. 2003 and DFID 2003), in others the sum of the above balance of payments component plus migrants' transfer are used as proxy for remittances.

There are many different ways in which remittance transfers can be made, including, among others, cash payments using individuals who provide this service to their local immigrant communities, services from specialized global money transfer operators, bank-to-bank transfers and card payments any institution providing such a service as a business is called remittance service providers (World Bank, 2007).

In Ethiopia private transfers, specifically remittances, continued to surge, while there

have been a declining trend in official transfers since 2010/11. Official transfers however, have rebounded in the first quarter of 2013/14 to reach US\$538.8 million compared to US\$184.1 million in the same quarter of the previous year. Meanwhile, remittances increased by 5.3% and stood at US\$619.6 million in the first quarter of 2013/14 (United Nations Development Programme, 2014)

In businesses especially in the banking sectors where the underlying products have become commodity-like, quality of service. This is well documented in a study by Leeds (1992), who found that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also showed that increased use of service quality and professional behaviors (such as formal greetings) improved customer satisfaction and reduced customer attrition.

In line with the above, investigating remittance service and customer satisfaction is vital because understanding the level of customers' satisfaction is essential as it helps the organizations to know how well they are doing in comparison to others and also what the customers' desire from them, what they need to add, removes or change along with core offering. Manager need to be concerned on a day-to-day basis that the customers are satisfied, the operational system are running smoothly and efficiently and the employees are not working productively but are also doing a good jobs either of serving customers directly or helping other employees to deliver good services. Thus, the study explores the customers' satisfaction with respect to remittance services provided by CBE.

LITERATURE REVIEW

FOREIGN REMITTANCE SERVICES

Foreign remittances have become an important component of balance of payment of any country specially those which are in the phase of developing their economies. The remittance services have now become one of the most important services of any bank. There are more than 215 million international migrants in the world. Recorded remittances received by developing countries, estimated to be US\$325 billion in 2010, far exceed the volume of official aid flows and constitute more than 10 percent of gross domestic product in many developing countries (IMF, 2011).

It has been evident from the recent past that these foreign remittances have played vital role in substantially reducing the deficit of current account. These remittances include worker's remittances and other private transfers on current account such as charitable and religious contributions and gifts. In order to affect proper and successful remittances, the entire banking system plays an instrumental role. Banking system, no doubt acts as nervous system of any economy which provides for the required machinery for effective flow of remittances throughout the world (Manvinder S. P. and Manveen K., 2012).

The dependents or the beneficiaries of the migrants are the real users of the money sent to them by the remitters working abroad. There are various aspects which may affect the satisfaction of the customers of a bank availing such facilities. In the era of competition where the customer is the uncrowned king, the customer satisfaction plays an important role. The timeliness, behavior, trust etc are certain factors which determine the retention and migration of customers with and from a particular bank. The banks must understand the need of the customers and provide them the facility accordingly. This becomes most vital when

there is question of providing such services which is important for the economy of the country as is the case with the foreign remittances (Manvinder S. P. and Manveen K. 2012).

REMITTANCE INDUSTRY IN ETHIOPIA

The Ethiopian remittance services sector is characterized by the presence of both state-owned and private sector banks as well as several money transfer operators (MTOs) and a significant informal sector. However, compared with African countries such as Ghana or Kenya, the number of formal RSPs is extremely limited in Ethiopia, partly because of low levels of overall financial development (Alemayehu G., 2008).

Banks and MTOs facilitate the bulk of formal remittance inflows to Ethiopia. A mid-2008 survey of central banks indicated that six MTOs, eight private commercial banks, one state-owned commercial bank, and one state-owned savings bank provided these services in Ethiopia (Irving et al., 2010). However, the actual number of RSPs could be to be higher because of underreporting of remittance service providers in the survey and entry of new providers since the survey was conducted.

The Ethiopian remittance services industry also has a significant informal sector. According to Alemayehu (2008), a larger percentage of migrants have used formal channels in recent years, particularly through MTOs. A large amount of remittances, however, is still sent through informal channels, mainly because of lower upfront costs and, to some extent, lack of awareness of the formal money transfer options.

MEASURING SERVICE QUALITY

Effective marketing focuses on retaining existing customers and adding new customers. Customer satisfaction measures

are critical to any product or service company because customer satisfaction is a strong predictor of customer retention; customer loyalty and product repurchase (Smith, 2007). Customer satisfaction can be experienced in a variety of situations and connected to both goods and services (Kotler, 2000)

The most widely used model in measuring service quality in the banking sector is the SERVQUAL model. According to the SERVQUAL model (Parasuraman et al., 1988), service quality can be measured by identifying the gaps between customers' expectations of the service to be rendered and their perceptions of the actual performance of the service. SERVQUAL is based on five dimensions of service quality (Parasuraman et al., 1988):

Tangibility: The physical surroundings represented by objects (for example, interior design) and subjects (for example, the appearance of employees).

Reliability: the service provider's ability to provide accurate and dependable services.

Responsiveness: a firm's willingness to assist its customers by providing fast and efficient service performances.

Assurance: diverse features that provide confidence to customers (such as the firm's specific service knowledge, polite and trustworthy behavior of employees).

Empathy: the service firm's readiness to provide each customer with personal

EMPIRICAL REVIEW AND KNOWLEDGE GAP

There is large evidence that remittance service aspects of bank do positively or negatively influence the performance of financial institutions. The existing empirical evidence on the role of remittances as a shock absorber is debatable. Some studies suggest that remittances are counter-cyclical with respect to output in the recipient country, because they are driven by

altruism (OSILI, 2007), or because household members migrate as part of a risk-diversification strategy aiming to insure against income shocks (Yang D. and Choi, 2007). Other studies emphasize that remittances can be pro-cyclical, because migrants' decision to remit is also driven by factors such as investment in physical and human capital (Yang D., 2008; Adams Jr. and Cuecuecha, 2010; Cooray and Mallick, 2013).

Anyanwu John C., (2011), investigates the impact of migrant remittances on income inequality in African countries for the period 1960-2006. The results suggest that, first, international migrant remittances have a significant positive impact on income inequality in African countries. Second, initial per capita GDP strongly increases income inequality. Third, inflation rate appears to be the strongest factor fueling income inequality in the continent. Fourth, education significantly reduces income inequality. Fifth, the North African dummy and remittances inflows to North Africa largely reduce income inequality in the sub-region while doing the opposite in Sub-Saharan Africa.

On the other hand, remittances are negatively correlated with the business cycle in recipient countries, and increase in response to adverse exogenous shocks, such as natural disasters or large declines in the terms of trade. Remittances are positively correlated with economic conditions in the source province. Nevertheless, in the presence of similar negative shocks to both source and recipient economies, remittances remain counter-cyclical with respect to the recipient country (Giulia et al., 2014).

Coming back to the case of the Ethiopian context, there is limited research studies on the remittance services. For instance, Alemayehu G., et al., (2011) found that remittance is an extremely important source

of foreign exchange for Ethiopia, perhaps larger than the export earning of the country in its foreign exchange generation capacity. However, the industry is overwhelmed by number of problems like implementation, especially to work with the private sector operators, and general policy environment and lack of deepening in the financial sector liberalization especially for informal sector operators.

Although these studies have tremendous contributions to the knowledge of remittance and remittance service providers, they were limited to investigate in relation with customer satisfaction. The main aim of this research is undertaken to fill the existing gap of the others studies that were not focused on customers satisfaction. Thus, researchers have decided to make effort to achieve generalization of the causal relationship between remittance service and customer satisfaction in CBE.

JUSTIFICATION OF THE STUDY

The study focuses on analyzing remittance service and its effect on the customer satisfaction of CBE because such specific type of study had not been previously conducted on this organization. Its outcome is important to create awareness to managers and employees of aforementioned organization about the most determinant variables that can affect their customer satisfaction. In addition, the findings of this study add to the wealth of knowledge in other remittance services and customer satisfaction studies. Moreover, the study will have significant role to play in filling gap in understanding of the remittance service given CBE. Such an understanding is important, because it equips CBE and other RSPs with applied knowledge of determining their remittance services.

OBJECTIVE OF THE STUDY

This research focuses on analyzing the extent of realized satisfaction amongst the

customers using foreign remittance services provided by CBE and attempts to achieve the following objectives:

To study the overall satisfaction of foreign remittance services provided by CBE;

To examine the relationship between service dimensions and customer satisfaction;

To identify the practical problems faced by the customer of CBE.

SCOPE OF THE STUDY

There are many institutions/organizations legally eligible to provide remittance service in Ethiopia. However, CBE, which is, licensed business organization to provide financial intermediation is selected for this study and the Bank has around fifteen districts in the country. Due to uniformity of services in all districts the study is confined to *Hawassa* and *Shashemane* districts covering fourteen branches.

HYPOTHESIS

Based on the statement of the problem and objectives of the study the following hypothesis is formulated:

H₁: Remittance services of Commercial Bank of Ethiopia have impact effect on the customer satisfaction.

H₀: Remittance services of Commercial Bank of Ethiopia have no effect on the customer satisfaction.

RESEARCH METHODOLOGY

RESEARCH DESIGN

In order to achieve the objectives stated in the preceding section, considering the nature of the problem and the research perspective this study used mixed research approach. The researchers selected survey design because survey is relatively inexpensive and it enables to gather enough information, which may not available from other sources.

DATA MEASUREMENT

Performing according to the desired level is critical to the entire organization. To evaluate the customers' satisfaction level on the remittance service of the bank, five dimensions (tangibles, reliability, responsiveness, assurance and empathy) were employed as it is mostly recommended in the existing literature. Each dimension was measured by three to four items. In making these measurements, respondents were asked to indicate their degree of agreement with certain statements on Likert type scale which ranges from strongly agree to strongly disagree.

SAMPLING TECHNIQUE

The target population of the study consists of regular remittance service users around 74,625 numbers of customers within the selected branches of the two districts. It is difficult to gather information from all customers of the branches and districts. Therefore, among 74,625 of total population 398 customers were selected for this study. These samples are determined using the sample size determination formula as recommended by Yamane T. (1967). Where: e is accepted error limit (5% on the basis of 95% degree of confidence).

$$n = \frac{N}{1 + N(e)^2}$$

DATA COLLECTION METHODS

To achieve the purpose of the study, relevant data were collected from both primary and secondary sources. For primary data, the researchers employed structured questionnaires and for the secondary data, the researchers used literatures and journal articles related with customer satisfaction in the area of remittance service.

METHODS OF DATA ANALYSIS

Survey data collected through questionnaire was analyzed statistically using both descriptive and inferential statistics with the help of Statistical Package for Social Sciences (SPSS Version 20). Descriptive

statistics of the variables and different percentiles of the dependent variable were calculated over the sample period. In addition, Correlation was used to identify the relationship between independent variables and dependent variable. Then, using statistical package ‘SPSS V20’ OLS (ordinary least squares) multiple regressions were carried out to test the relationship between customer satisfaction and explanatory variables, and determine the most significant and influential explanatory variables of customer satisfaction. Thus, the general model for this study as is mostly found in the existing literature is represented by:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

The left-hand variable Y_i , represents the dependent variable in the model, which is the customer’s satisfaction. The right-hand side contains the set of independent variables in the estimation model, namely: reliability X_1 , responsiveness X_2 , empathy X_3 , tangibility X_4 and assurance X_5 . Besides, β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0. Moreover, $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are the coefficients associated with each independent variable which measures the change in the mean value of Y , per unit

change in their respective independent variables.

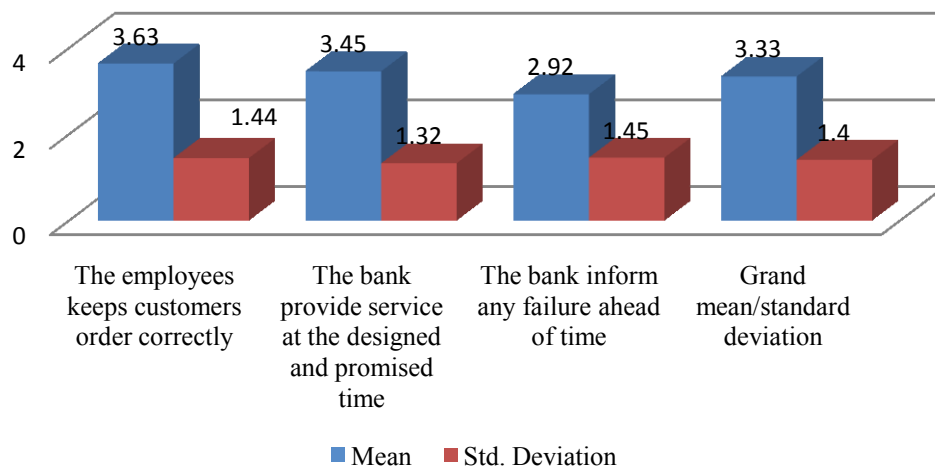
RESULTS AND DISCUSSION

To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. Data were collected from regular customers of the CBE with regard to remittance services. Three hundred ninety eight questionnaires were distributed across fourteen branches in two districts, out of which three hundred sixty two were completed and retrieved successfully, representing 91% response rate. Statistical results and interpretation are given below according to SERVQUAL dimensions.

CUSTOMERS’ RESPONSES ON RELIABILITY

Customers measure the reliability of the banks by considering honoring promises, keeping accurate customer records and performing the service correctly at the first encounter. Customers were asked to rate the reliability of the Banks by taking into account its remittance services. Their responses are illustrated in the following chart.

Chart 1: Customers’ responses on reliability



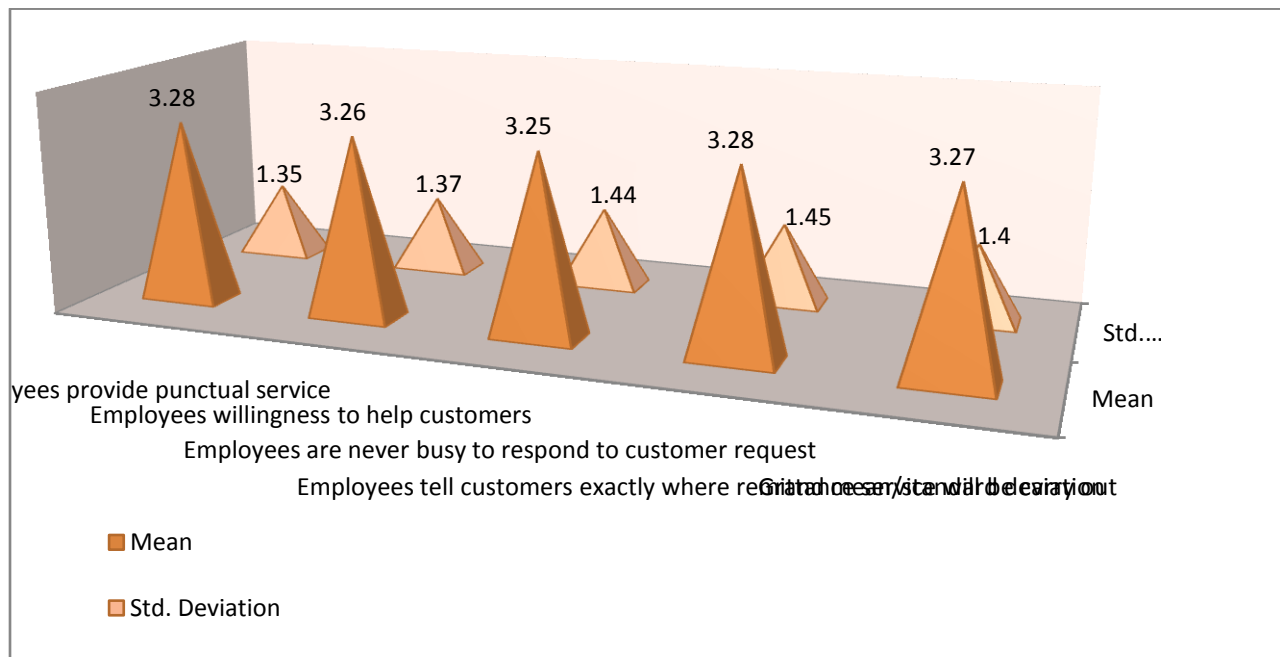
Source: Field survey, 2014

As shown in chart 1, keeping customers order properly is replied as the mean score and standard deviation of 3.63 and 1.44 respectively. The respondents of bank moderately agree with a mean of 3.45 and standard deviation of 1.32 that the bank provides services for them at designed and promised time. It can be also seen in the chart that, the bank faces some problem while informing any failure ahead of time. Generally, the customers of the bank are neither satisfied nor dissatisfied with reliability dimension of service quality with grand mean score and standard deviation of 3.33 and 1.40 respectively.

Responsiveness dimension is concerned with the willingness, readiness and preparedness of employees to provide a service to satisfy the needs and desires of customers. Customers were asked to give their opinions on responsiveness dimension of the remittance service quality. The result obtained is summarized in chart 2 as follows.

CUSTOMERS' RESPONSES ON RESPONSIVENESS

Chart 2: Customers' Responses on Responsiveness



Source: Field survey, 2014

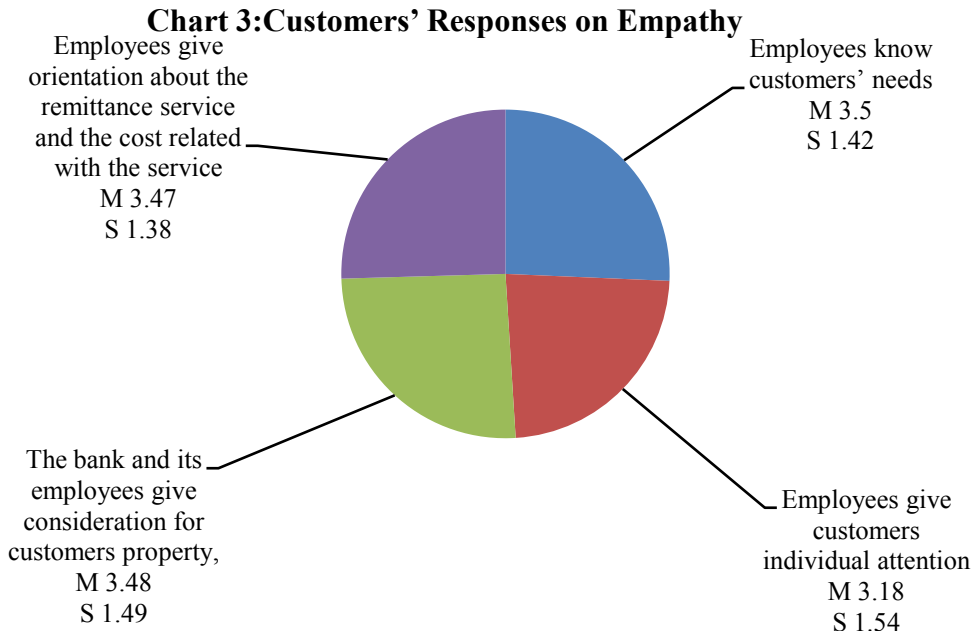
The mean score and standard deviation for punctuality are 3.28 and 1.35 respectively. This is followed by employee's willingness to help customers with the mean score and standard deviation of 3.26 and 1.37 respectively. Besides, customers are not satisfied with employees' response to their

request as it is justified with the mean score and standard deviation of 3.25 and 1.44 respectively. Moreover, customers are not satisfied with the information of remittance services provided by the employees and its mean score and standard deviation are 3.28 and 1.45 respectively. To conclude, the customers are neither satisfied nor dissatisfied with responsiveness dimensions

of remittance service quality with grand mean and standard deviation score of 3.27 and 1.40 respectively.

they want in a convenient way have the potential to satisfy its customers on this dimension of service quality.

A service provider who tries to put himself in the position of its customers to understand customers' needs, and then providing what

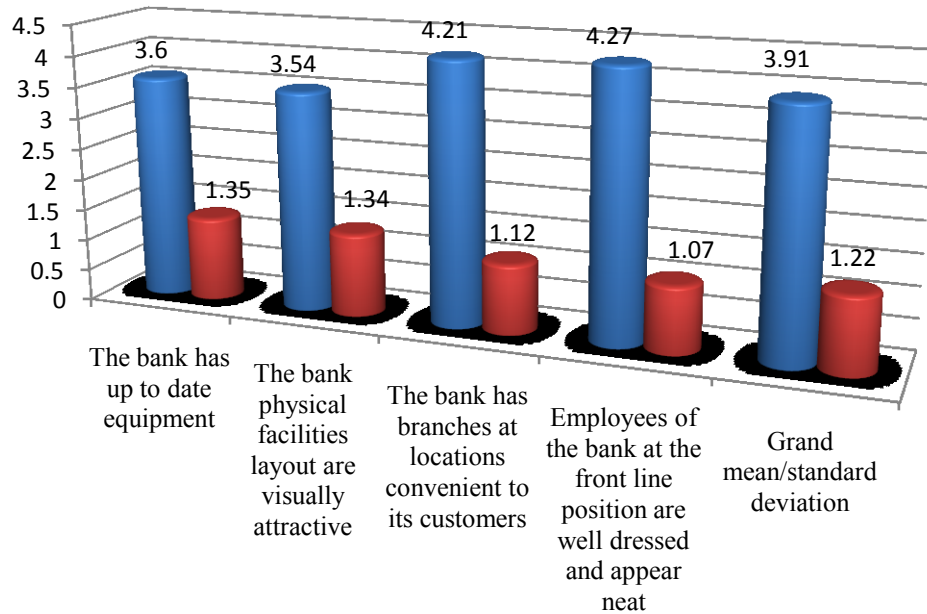


Source: Field survey, 2014

The result presented in chart 3 shows customers are moderately satisfied that employees' well understand the customer needs with mean score and standard deviation of 3.50 and 1.42 respectively. Besides, customers are moderately satisfied with consideration and remittance service orientation provided by employees with mean scores of 3.48 and 3.47 and standard

deviations of 1.49 and 1.38 respectively. However, employees do not give customers individual attention and it is justified with mean score and standard deviation of 3.18 and 1.54 respectively. In sum, customers are moderately satisfied with empathy dimension of service quality with grand mean and standard deviation score of 3.41 and 1.46 respectively.

Chart 4: Customers' Responses on Tangibility

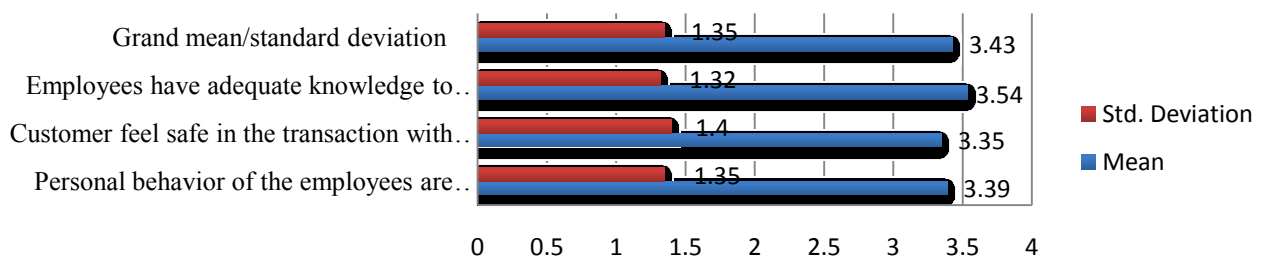


Source: Field survey, 2014

Chart 4 has shown that the employees of the bank at the front line position are well dressed and appear neat with the highest mean score of 4.27 and standard deviation of 1.07 to be the most dominant service quality and evident to a considerable extent. This is followed by convenient locations with the mean score of 4.21 and standard deviation of 1.34. The bank has up to date equipment (mean=3.6, D=1.35) and the bank physical facilities layout are visually attractive

(mean= 3.54, SD=1.34) are rated as usual practices of the bank. In general, customers are satisfied with tangibility dimension having the grand mean score of 3.91 and standard deviation of 1.22.

Chart 5: Customers' Responses on Assurance



Source: Field survey, 2014

As shown in chart 5, the customers are moderately satisfied with the adequate knowledge of employees. This is justified with the mean score and standard deviation of 3.54 and 1.32 respectively. However, with

regard to safe transaction the mean score of 3.35 and standard deviation of 1.4 were achieved followed employee’s personal behavior with mean score and standard deviation of 3.39 and 1.35 respectively.

Table 1: Correlation Analysis

Independent variables		Customer satisfaction
Reliability	Pearson Correlation	.990**
	Sig. (2-tailed)	.000
	N	362
Responsiveness	Pearson Correlation	.992**
	Sig. (2-tailed)	.000
	N	362
Empathy	Pearson Correlation	.991**
	Sig. (2-tailed)	.000
	N	362
Tangibility	Pearson Correlation	.995**
	Sig. (2-tailed)	.000
	N	362
Assurance	Pearson Correlation	.993**
	Sig. (2-tailed)	.000
	N	362

** . Correlation is significant at the 0.05 level (2-tailed). Source: Field survey, 2014

Table 1 provides information regarding correlation between the five service quality dimensions and customer satisfaction. There is a strong positive correlation between all the constructs with customer satisfaction; reliability and customer satisfaction ($r = .990, p < .05$), responsiveness and customer satisfaction ($r = .992, p < .05$), empathy and customer satisfaction ($r = .991, p < .05$), tangibility and customer satisfaction ($r = .995, p < .05$). This part of the analysis includes a regression model to test the hypothesis. Five extracted dimensions were taken as independent variables against overall satisfaction of the customers as dependent variable in a multiple regression model. For the hypothesis of the study, below hypothesis test was used at 95% confidence. The following table show the results revealed from the regression analysis.

satisfaction ($r = .995, p < .05$), and assurance and customer satisfaction ($r = .993, p < 0.05$), which are statistically significant at 95% confidence level. However, highest correlation between satisfaction and tangibility of the bank which is 99.5%, which indicates tangibility of the banks plays a significant role while selecting the bank for services and it also has a significant impact on customer satisfaction.

MULTIPLE REGRESSION ANALYSIS
 interval. To know about the effect of the individual dimensions of bank service quality tools on overall customer satisfaction, multiple regressions using the following model was developed: customer satisfaction = $0.047 + .966(\text{REL}) + .946(\text{RES}) + .922(\text{EMP}) + .981(\text{TAN}) + .977(\text{ASS}) + 0.187$

Table 2: Multiple Regression Analysis

<i>Model summary</i>	R	R square	Adjusted R square	Std. Error of the Estimate	Sig	
	.989 ^a	.978	.957	.187		.000
<i>Coefficients</i>	Model	<i>Un- standardized Coefficients</i>		<i>Standardized Coefficients</i>	T	
	Variables	B	Std. Error	Beta		Sig.
	Constant	0.047	.028		7.162	.000
	Reliability	.966	.007	.990	8.003	.000
	Responsiveness	.946	.006	.992	7.793	.000
	Empathy	.922	.005	.995	7.090	.000
	Tangibility	.981	.014	.973	9.700	.000
	Assurance	.977	.005	.995	8.786	.000

** P < .05 Predictors: (Constant), responsiveness, empathy, tangibility and assurance.

Source: Field survey, 2012

In the above table, un-standardized coefficients indicated how much the dependent variable varies with an independent variable, when all other independent variables are held constant. The beta coefficients indicated that how and to what extent SERVQUAL dimensions influence customer’s satisfaction of a bank. It has been found that, reliability (beta=.990, p<.000), responsiveness (beta =.992, p<0.001), empathy (beta=.995, p<.000), tangibility (beta=.973, p<.000), and assurance (beta= .995, p<0.001) have the significant effect on customer’s satisfaction.

Table 2 further shows that, all the explanatory variables included in this study can significantly explain at 95% confidence level to the variation on the dependent variable. The hypothesis which states that the remittance service provided by CBE has no effect on the customer satisfaction is tested at a 5% level of significance. It is discovered that the remittance service provided by CBE has a significant role in determining the satisfaction of customer. Thus, the null hypothesis may therefore be rejected and it is accepted that the

remittance service provided by CBE has effect on the satisfaction of customer.

CONCLUSIONS

Even though, all dimensions of service quality have effect on the satisfaction of customers, this does not necessarily mean that the customers are equally satisfied with all dimensions. Generally, customers are satisfied with tangibility dimension of service quality. However, the study shows that customers are neutral (neither satisfied nor dissatisfied) with the remaining dimensions.

In addition, the study has shown the interrelationships among remittance service quality and customer satisfaction in CBE. The study confirms the positive relationship between all the service quality attributes and customer satisfaction. The study also suggests that SERVQUAL is a suitable instrument to measure the bank service quality. Therefore, practitioners and researchers can use this instrument to assess the bank service quality in Ethiopia and/or elsewhere.

RECOMMENDATIONS

For clarity purpose, recommendations are forwarded to CBE based on the findings of SERVQUAL dimensions.

- In order to retain the existing customers and to improve service quality, the bank should provide services at designed and promised time, and continuously inform any failure ahead of time for services.
- Since the study found that the customers are neither satisfied nor dissatisfied with the responsiveness of the remittance service in the bank, it is recommended that the management of the bank should consistently ensure that customers are informed when remittance services will be performed. Besides, like other service sector timely reaction towards the customers' requirement is vital for banking sector. Thus, the bank should measure promptness in giving service, willingness to help customers, quick-win and punctuality of employees.
- Banks have high customer contact, hence, providing continuous training to the employees on issues like courtesy, etiquette and communication skills while dealing with customers is of immense importance.
- Due to the wide variation of the responses, bank need to consider the weak areas in order to meet customer requirements. Hence, to be successful in banking sector, bank must provide service to their customer that at least meets or better if exceeds their expectations.
- Since banks are customer oriented sector, the employees should be self-motivated, enthusiastic who will like to deal with customer and will try to solve customer complaints and other issues in an effective manner. In addition, individual attention should be given to customers in order to better understand their needs and better satisfy them.

- Finally, as the customers are not fully aware of the remittance service provided by the bank, there is a need of creating proper awareness of services launched by the bank along with the reference to the laws related thereto. Now days, there is high competition in banking sector and if the customers are not satisfied, the bank may have to suffer with 'customer flight'.
- Several issues associated with the limited scope in this study require further research considerations. The researchers only considered CBE; there is need for further research on private banks in the country. In addition, to be successful e-banking services are one of a major trend in the world. Thus, e-banking services should be incorporated as a factor to measure service quality in future research.

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